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Q1. The growth of TCI is widely recognized, how would you state the company's competitiveness throughout its developing history?

I established the Ta Chen Stainless Pipe Company in 1986. The company first started as a small stainless pipe, valve, and fittings manufacturer. Within 10 years, Ta Chen was traded publically on the Taiwan Stock exchange under ticker "2027". **By 2008, the TCI group generated sales of over \$1 billion (USD) dollars and has become one of the most dominant Master Distributor of Stainless and Aluminum semi-finished products in the United States.** Our product lines currently include coils, sheets, plates, long products, extrusions, as well as the Pipes, Valves, and Fitting which originally started TCI.

In the United States, TCI built its name by establishing the largest and most efficient depot network in the stainless and aluminum distribution market Ta Chen's Taiwan factories produce about **15%** of the inventory that Ta Chen International carries in its US depots. The balance of TCI's inventory is

sourced from third-party European and Asian mills (approximately 50 / 50 European versus Asian sourcing mix).

Unlike the other large players in the metals industry, the majority of Ta Chen's sales is transacted online. Ta Chen International was one of the first companies who saw the ability of the Web to create unprecedented operating leverage for traditional businesses that incurred high sales & marketing expenses (as a percentage of revenue).

The typical distribution model for most steel companies in the USA is to hire more sales people in order to sell more products. Ta Chen redefined distribution by creating a marketplace that produces significant value for customers so they willingly and automatically come to this platform to buy instead of pushing products on customers. The only way that such a platform can achieve "voluntary" customers



BRIGHTON-BEST INTERNATIONAL

Founded 1925

by Fastener World Inc.

Redefine the Channel

The Ta Chen Group has not only introduced a scalable web-based management system to the fastener industry along with the acquisition of Brighton-Best International (BBI), but it has also shared the fruitful business growth generated by this successful platform with its employees, customers, and vendors. Here is our interview with Robert Shieh of his inspiring story told in Ta Chen International (TCI) headquarters, Tainan.

► TCI Chairman, Robert Shieh



is if it is able to deliver on all **four points** -- **service, quality, price** and **inventory**.

We are the only company in the steel business who can conduct 70% to 80% of its business online – not only do we sell via the web but most of TCI’s daily administrative and management processes, including warehouse management and inventory, are performed online.

In 2008, Ta Chen acquired Brighton-Best Socket Screw Mfg. (a dominant alloy socket screw wholesale distributor) located in six countries (United States, Canada, Australia, England, Brazil, and New Zealand) with 31 locations worldwide.

Q2. What are the managerial ideas and strategies of US Ta Chen International? How can it become the largest stainless steel products distributor in the US?

Ta Chen is a master distributor of commodity stainless steel products. When a company sells a commodity product, it is selling products that a customer needs, not just wants. Customers are always seeking the best combination of inventory, price, and service. Ta Chen provides this value for customers through its web platform, where there is full transparency into Ta Chen’s \$350 million (USD) of inventory across the United States, industry leading pricing, and same day deliveries.

Strong businesses will focus on its core niche. Ta Chen’s niche is to provide a sales channel into the United States for some of the world’s largest stainless steel mills. TCI’s supply base includes mills from Asia and Europe. Steel Mills are set up primarily to service its domestic market. Exports usually represent a small portion of business for these mills. To service this excess capacity, steel mills look to Ta Chen to bring its products into the United States.

Cover Story

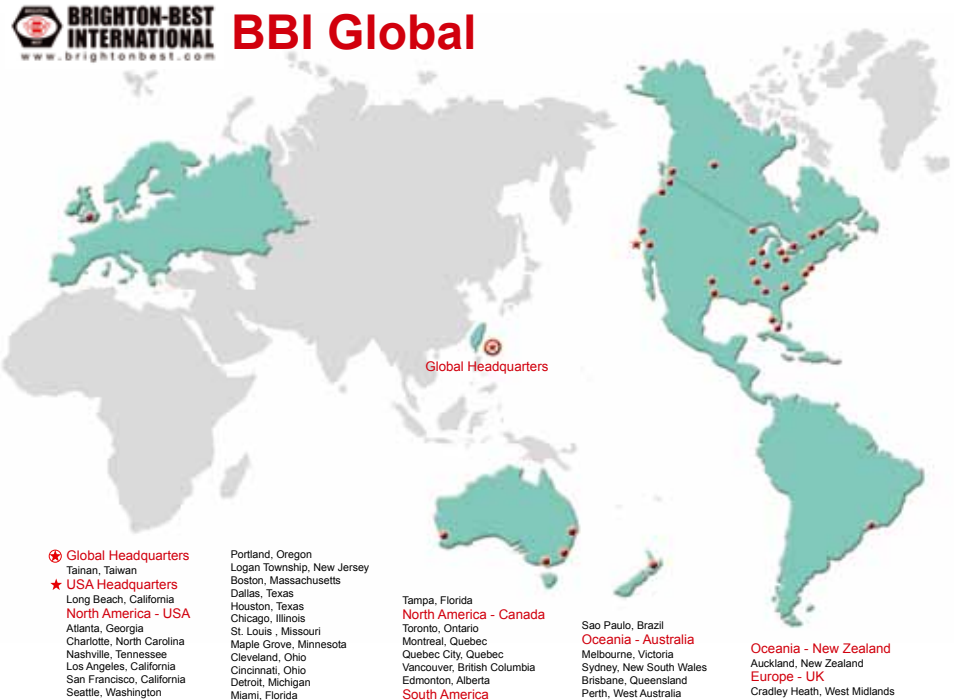
TCI's customer base includes some of the largest service centers and distributors in the USA. As in any business, 20% of sales are generated by 80% of the line items. Hence, TCI customers look to Ta Chen to provide this slower moving inventory to them without having to stock 6 months of products themselves. Customers are able to achieve higher inventory turnover and preserve precious capital for higher return projects.

By consolidating this usage from all the service centers and distributors in the United States and leveraging the TCI supply base, TCI has evolved to become the primary link between stainless mills worldwide with the USA service centers and distributors. Why buy and hold when you have Ta Chen to fall back on?

Q3. The acquisition of Brighton-Best International did shock the entire fastener industry. What is the main purpose of acquiring BBI? What is the policy of management and operations for BBI?

Prior to starting Ta Chen 24 years ago, I started my career at San Shing selling nut forming machines to companies all around

the world. It is from this introduction to fasteners that I developed a knowledge base to the industry, and believed I could make Brighton Best the largest master distributor of fasteners worldwide. This made acquiring Brighton Best a natural decision when it came up for sale.



Brighton-Best has dominated the niche market of alloy socket screws in the US since its founding in 1925. By selling a niche product, we had a wide group of distributors as our existing customer base, from large, medium, to small distributors alike. With the acquisition of Brighton-Best, Ta Chen was able to get an immediate foothold into the US fastener master distribution, and we were able to quickly apply the same sales and efficient management methodology that has made Ta Chen successful. BBI's management style is to manage by the numbers through the utilization of our IT system. When you manage by numbers, you take out the politics and the emotions that plague all companies, thus allowing all Brighton-Best managers to communicate with upper management efficiently and effectively on the same page. Most companies have sales meetings on a daily or weekly basis. At Brighton-Best, we say that we have sales meetings on a minute by minute basis. All the BBI managers know what is his/her targets and can track his/her progress using our system. They know before management even asks what they need to focus on to achieve those targets.

Q4. The origin of products plays a key role in making TCI one of the most important distributors in the world. How would BBI build up ideal partnership to create marketing niche as TCI has?

BBI is highly selective of its supply base. Our intentions are to partner with the best in class factories for each of our product lines. At TCI and BBI, we believe the strongest

suppliers can also be the most competitive suppliers. Competitiveness is defined by competitive pricing, high quality products, and on time deliveries. A factory can generate millions of pieces of fasteners per year. It is impossible for any fastener distributor or end user to check each and every part. The best way for BBI to control quality is by partnering with the best suppliers in the world who have a strong reputation to protect in the market. Brighton-Best has always been known for quality and we intend to keep it that way by focusing on manufacturers that share our commitment to quality and will not cut corners just to save on costs.

There is a proven stability of quality and price of fastener from Taiwan. Hence, Brighton Best will continue to increase the product line and purchasing volume from Taiwanese fastener manufacturers. Brighton Best is focused on distribution of standard fasteners. We sincerely look forward to building up further cooperation with vendors with a strong niche in their product line and see the value of partnering with a high volume master distributor of fasteners like BBI.

Q5. In terms of the web-based system of BBI, inventory management is the most crucial part. How does BBI apply its management system to integrate channel? How does it work on generating higher profit and developing new market?



BBI has not only built a marketplace where customers want to come to transact but also an in-house warehouse management system that can track an order from sales order entry to picking to packing to shipping. With the warehouse management system, BBI is able to know real-time inventory positions at all of its warehouse locations. Due

to the in-house IT capabilities, the system is a “living fabric” where improvements and modifications can be implemented swiftly and efficiently.

Using the web-based online ordering system and in-house management system, BBI was able to triple its sales and quadruple its metric tonnage sold since its acquisition in 2008. All of the additional sales were generated by only adding an additional 10% in sales, marketing, and administrative costs. The ability to achieve rapid growth in sales and tonnage sold is a great case study that demonstrates the power of the Ta Chen / Brighton-Best business model and how it allows both companies to achieve more with less.



At BBI, we stay focused on our strategy, business model, and operations. As long as we continue to see sales increase, satisfied customers, and support from our vendors, we will continue on our path to increase efficiencies and create value for BBI employees, our customers, and our vendors.

Q6. For TCI, the fastener industry is a relatively strange area. It has been two years since the acquisition of BBI. How would you describe the recent operations of BBI?

Fundamentally, TCI and BBI businesses are very similar. Both companies are in wholesale distribution and both companies deal with commoditized products. Dealing with such commoditized product lines, the success of a distributor hinges on its supply base, pricing, and operating efficiencies.

Cover Story

The Ta Chen group has over 24 years of experience in the United States perfecting this model in stainless steel distribution. The Brighton Best fastener business fits into our model nicely.

BBI will retain the current marketing approach. We have built a scalable platform such that the majority of our overhead is fixed. Any new product expansions will have a positive impact on our net earnings as our only cost to new products is the variable cost of the material itself.

Brighton Best may have been mistaken to only work with a few suppliers. While our selection process is strict, we welcome future partnerships with factories that value a relationship with one of the leading master distributors in the world. We rate vendors based on if the product line is standard or special, on the production range of the supplier, on the tonnage capacity of the supplier, and certainly of the supplier's quality and reputation in the market. Based on BBI's purchasing and selling volume, we can guarantee a supplier a steady stream of orders once the relationship has been established.

Q7. What is the purchasing strategy of BBI? How does it create competitive pricing for BBI's products?

Brighton Best is at its very essence a financial institution for

metals. For the vast majority of our product lines, the cost of metal comprises 70%+ of the cost of the final product. With our capital, we are financing the purchasing of inventory, financing the holding of inventory in our warehouses, and extending credit to our customers to purchase inventory from us. It is our responsibility to ensure a stability of supply and pricing to our customers. Hence, purchasing correctly is a critical aspect to achieving this stability. Purchasing correctly is not only buying the right items, it is also the timing of the purchase. Carbon steel is volatile, but not as volatile as stainless. The movement across quarters can be as much as 10%-15%. At BBI, we do not believe in buying every month what you need, but rather purchasing a large amount of inventory when prices are low, and purchasing less when prices are high. By doing this, we manage our average cost, so that even though our replacement costs may fluctuate as much as 15%, the price change to our customer will be minimized to less than half that.



Unlike BBI, TCI started out as a manufacturer and developed a distribution platform afterwards. Brighton Best is in distribution only. As long as our vendors continue to support BBI with a quality product at competitive prices, and believes in the BBI – Supplier partnership, there is no need or reason for BBI to enter into manufacturing.

Q8. Considering the long-term prospects of Ta Chen Group, what are your goals and plans for different stages of development?

The possibilities for product range expansion and development are infinite with the online marketplace strategy. Any incremental sales will be generated with zero to minimal incremental costs. We believe we have already achieved our short-term goal of growing sales despite a down market, introducing a new way to purchase fasteners, and building in efficiency gains throughout the whole distribution channel. In a short time, we have redefined value in the fastener industry.

Our mid-term and long-term goals are to extend our efficiencies. We look to continue to grow our sales and tonnage through the introduction of new products, and increased penetration of existing product lines. Our goal is to generate long term value for our employees, our shareholders, our customers, and our vendors.

